Investment Idea

HSS Engineers Bhd

Overhang elevated, now for lift-off

By Lee Cai Yu

BUY

Price: RM0.665

Target price: RM0.840

HSS Engineers Bhd (HSSEB: 0185) provides engineering and project management services coupled with some recurring income streams, and digital transformation. So far, the Group has participated in landmark projects namely MRT 1–3, Pan Borneo Highway, and ECRL, while participated abroad in the Baghdad Metro, Phnom Penh-Bavet Expressway, and Jakarta LRT. We project core net earnings of RM30.3m for FY25F and RM35.7m for FY26F. BUY with a target price of RM0.84 based on 12x PER over FY26F EPS.

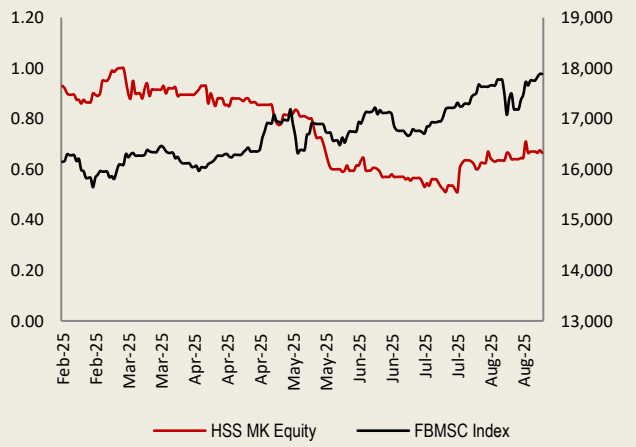
HSSEB has finally issued the Completion Certificate for its first 10% milestone payment in the Baghdad Metro project following a brief hiccup. The Group is currently awaiting formal acknowledgement from Iraq's Ministry of Planning which HSSEB anticipates receipt of c.RM10m expected by October 2025. This milestone should accelerate earnings recognition in 2HCY25 and more importantly see a turnaround in operating cash flows. Looking ahead, Phase 2 of the project is anticipated to commence in 2HFY26, contingent on the appointment of a main contractor.

We expect the positive momentum to continue into 2HFY25 as management guides for RM80m–120m in new awards, mainly from water treatment, data centre, and rail projects. Water and flood mitigation are the key focus areas under the 13th Malaysia Plan with projects such as the Rasau Flood Mitigation Scheme, Muda Irrigation Scheme, and water supply contracts in Penang and Negeri Sembilan already secured. These initiatives accounted for a significant portion of the Group's RM201m YTD wins.

HSSEB's order book remains robust at RM2.1bn as of June 2025, providing earnings visibility of up to 8 years. Recent wins include two data centre projects in Malaysia, the Davao Bus Rapid Transit project in the Philippines (RM19.3m), and the Tuna Tekra Container Terminal in India (RM10.0m). Tender book currently stands at RM510m with management expecting RM300m–500m in orderbook replenishment in FY26.

Regionally, HSSEB continues to broaden its footprint with projects like the Bavet Expressway in Cambodia. In Iraq, the Group remains committed to enhance its infrastructure presence despite prevailing geopolitical challenges. Domestically, MRT3's revival in July 2025 represents another key re-rating driver, with civil awards expected by late CY26. Meanwhile, HSS Alliance Sarawak is building momentum, having submitted multiple bids for green energy and renewable power plant projects, positioning the Group to capture opportunities in the state's growing sustainable energy sector.

HSSEB's financial leverage remains healthy, with a net gearing ratio of 0.13x as of 2QFY25. In line with stronger earnings delivery in FY25 and improving operating cash flows, we expect its net gearing easing to below 0.1x by end-2025. This reinforces HSSEB's financial flexibility to pursue new project opportunities while sustaining healthy returns going forward.



KLCI	1,587.91
YTD FBM KLCI change	-3.3%
YTD FBM SC Index change	-11.9%
YTD stock price change	-35.4%

Stock Information

Market Cap (RM mil)	338.14
Issued Shares (m)	508.48
52-week range (H)	1.24
52-week range (L)	0.50
Shariah Compliant	Yes

Major Shareholders

Victech Solutions SB	21.3%
Flamingo	15.1%
Teo Chok Boo	6.6%

Summary Earnings Table

FY Dec (RM'm)	2023A	2024A	2025F	2026F
Revenue	187.3	201.2	241.5	301.9
EBIT	31.2	36.7	42.7	49.9
Pretax profit	28.7	33.9	39.8	47.0
PATMI	**20.4**	**24.9**	**30.3**	**35.7**
Core PATMI	**20.4**	**24.9**	**30.3**	**35.7**
Consensus	-	-	34.6	51.5
Core EPS (sen)	4.0	4.9	6.0	7.0
EPS growth (%)	35.4	22.0	21.6	17.8
DPS (sen)	0.9	1.2	1.5	1.8
PER (x)	16.8	13.8	11.3	9.6
BV/Share (RM)	0.48	0.51	0.57	0.62
ROE (%)	8.4	9.9	11.0	11.8
Div. Yield (%)	1.33	1.79	2.21	2.60

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained within does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This is not to be taken in substitution for the exercise of judgement by addressees and further shall not be re-distributed to any other third party. Rakuten Trade Sdn Bhd accepts no liability whatsoever for any direct or consequential loss arising from any use of the contents within or any solicitations of an offer to buy or sell any securities. Rakuten Trade Sdn Bhd and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published:

Kenny Yee Shen Pin
Head of Research